BEFORE THE
OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE
TRADE POLICY STAFF COMMITTEE

SECTION 203 INVESTIGATION
OF CERTAIN STEEL

PROPOSAL ON ADJUSTMENT ACTIONS CONCERNING STAINLESS STEEL FLANGES AND FITTINGS

Filed on Behalf of:
Flowline Division of Markovitz Enterprises, Inc.,
Gerlin, Inc., Shaw Alloy Piping Products, Inc.,
and Taylor Forge Stainless, Inc.

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PUBLIC VERSION

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I. INTRODUCTION AND REQUEST FOR CONFIDENTIAL TREATMENT

This proposal concerning actions intended to be taken to facilitate the positive adjustment to import competition is submitted pursuant to the Office of the United States Trade Representative's Federal Register notice of October 26, 2001 (66 Fed. Reg. 54,321), on behalf of Flowline Division of Markovitz Enterprises, Inc. ("Flowline"), Gerlin, Inc., ("Gerlin"), Shaw Alloy Piping Products, Inc. ("Shaw APP"), and Taylor Forge Stainless, Inc. ("Taylor Forge") (collectively, "the domestic industry"), domestic producers of stainless steel flanges and fittings ("stainless fittings").

It should be noted that certain matters discussed in these comments are limited in their specificity because certain data relevant to those matters cannot be cited in this proceeding, as they involve business proprietary information ("BPI") from the record of the U.S. International Trade Commission's ("Commission" or "ITC") investigation and the domestic industry is not permitted to use that BPI outside of the ITC's proceeding. Where BPI is used in this proceeding, it is information pertaining to Flowline, Gerlin, Shaw APP, and Taylor Forge only.

Pursuant to the provisions of 15 C.F.R. § 2003.6, the domestic industry requests confidential treatment for the information contained within brackets in this submission. The information contained within brackets is the type of information that is routinely given confidential treatment (and has been given confidential treatment in the Steel 201 investigation) by the ITC, as it pertains to the business operations and plans for capital investments of Flowline, Gerlin, Shaw APP, and Taylor Forge. This is highly sensitive information and would cause harm to these companies if the information were made available to the public. Because the information is company-specific, it cannot be summarized in a non-confidential manner except as to indicate the nature of the information involved which, as stated above, involves information as to the companies' internal business operations, capital investment plans, and amounts of spending associated with those plans.

The domestic industry requests that the bracketed information contained in these comments be kept confidential and exempt from disclosure under the Freedom of Information Act (FOIA, 5 U.S.C. § 552) as business proprietary information. If the Office of the United States Trade Representative or the TPSC is considering disclosure of certain information contained in these submissions pursuant to a FOIA request, then the domestic industry asks that it be informed immediately so that it may withdraw the submission or redact confidential portions.

II. EXECUTIVE SUMMARY

On October 22, 2001, three members of the U.S. International Trade Commission determined, pursuant to section 202 of the Trade Act of 1974, that stainless steel flanges and fittings ("stainless fittings") are being imported into the United States in such "increased quantities" as to be a substantial cause of serious injury, or threat thereof, to the domestic stainless fittings industry. The record in that investigation shows that imports of stainless fittings increased by a massive 73.5 percent between 1996 and 2000, and that the market share of those imports grew substantially over the period. The record also indicates that the imports were regularly sold at prices well below those of domestic producers.

As a result of the growth in imports sold at aggressive prices, the performance of the domestic industry declined over the period in relation to almost every indicator tracked by the Commission, including production, capacity utilization, employment, shipments, prices, net sales, and operating profits. These declines occurred despite substantial growth in U.S. demand for the product over the period of investigation. In short, the domestic industry has been unable to compete with imports of stainless fittings, which have been available in ever-increasing quantities and at irrationally low prices. It is only through an effective remedy under section 203 that the domestic industry will be able to turn around its current condition and regain a competitive posture in relation to the imports.

The domestic stainless fittings industry has outlined a number of actions that it intends to take during a period of import relief to improve the industry's ability to compete after relief terminates and to facilitate adjustment to import competition. First and foremost, the industry needs to turn around the major cutbacks in capital investment that have been forced on it in recent years. The industry intends to make new capital investments and complete previously initiated investment programs that will allow it to lower labor, raw materials, and energy costs, thereby increasing efficiency. In addition, the industry intends to improve its information management systems in order to better track production, ordering, and inventory. The industry also intends to increase demand through improved marketing and promotional efforts for its product. Finally, the domestic industry intends to increase training of its employees and improve its technical capabilities through new hirings.

With respect to the types of actions the Federal government can take to assist the domestic stainless fittings industry's efforts to enhance its competitiveness or adjust to import competition, the domestic industry asks the TPSC to recommend to the President a remedy that includes a three-year quota program combined with a one-year tariff in the first year of relief, and a surge mechanism to ensure that the program's effectiveness is not undermined by a flood of imports in the quarter prior to imposition of import relief.

Finally, this proposal explains how import relief will assist in achieving the industry's objective of improved competitiveness. An effective remedy will restore the industry's health, allowing the increased capital spending needed to improve production efficiency. The end result will be a more dynamic, competitive domestic industry and an overall positive economic impact.

III. PROPOSAL ON ADJUSTMENT ACTIONS

A. Assessment of Current Problems Affecting the Stainless Fittings Industry's Ability to Compete With Imports

The problems currently affecting the stainless fittings industry in relation to import competition are outlined below:

- The record of the Commission's investigation shows that total imports of stainless fittings increased both in absolute terms and as a share of the U.S. market over the Commission's period of investigation ("POI"). In fact, imports of stainless fitting increased 73.5 percent between 1996 and 2000, a rate of increase in excess of any other steel product for which remedies are being considered currently. In the same period, domestic industry shipments declined, and the industry lost significant market share to imports.

- As the domestic industry lost market share, its production levels, capacity utilization, and employment all declined to unhealthy levels. Large layoffs of production workers have occurred over the last year.

- Imports have increased their share of the U.S. market through aggressive price underselling. According to the public data of the Commission's staff report, imports of stainless fittings undersold domestic producer prices in every possible comparison in the POI by large margins.

- As a result of depressed prices and market share lost to the imports, the domestic industry's financial performance has plummeted over the POI. Net sales fell precipitously and operating income has been decimated. The large declines in profitability have obliterated cash flow, and industry capital investment has been cut to near non-existence.

- No causes other than imports offer a meaningful explanation of the domestic industry's serious injury. Indeed, demand for stainless fittings showed healthy growth over the period of investigation.

B. <u>The Actions Proposed to be Taken During the Period of Relief Will Improve the Domestic Industry's Ability to Compete After Relief Terminates</u>

The U.S. industry producing stainless fittings has made substantial efforts to improve its competitiveness. However, as the data from the ITC's investigation make clear, increasing imports of stainless fittings severely affected the output, pricing, sales, and profits of the domestic industry, thereby restricting the ability of the industry to make capital investments and improve efficiency.

The granting of import relief will remedy the serious injury suffered by the domestic industry. As market conditions improve through such relief, the stainless fittings industry will be allowed to expand production, win back U.S. market share, and increase depressed pricing. Improvements in operating profitability and cash flow will allow, in turn, critical increases in capital investment, resulting in an improved ability on the part of the domestic industry to compete with import competition when the remedy is eventually phased out.

It should be recognized that the ability of the domestic industry to turn around its financial state and improve its competitive posture will require a strong, multi-year remedy. Inventories of imports of stainless fittings remain extremely high in relation to U.S. consumption, so there will be a notable lag in the effect of any remedy imposed. In addition, the current slowdown in U.S. economic activity will likely retard any improvements in market demand for stainless fittings for some time. Further, the lead times for new capital investments will be significant, as the process goes through the steps of management or board approval, ordering and building of the equipment or modification to existing machinery, and the installation of the new equipment in the production facilities. Finally, in the face of the dismal operating returns of the industry in the last several years and the importance of cash flow as a source of capital, the stainless fittings industry will need at least one full year of improved profitability and cash flow to even consider any increases in capital investment. In light of these factors, the domestic stainless fittings industry seeks a three-year quota period, which will allow for a more stable and predictable period of profitability during which capital investments can be made, and a one-year in-quota tariff to ensure that existing inventories of imports do not hamper price recovery.

In addition to new capital investment, the domestic stainless fittings industry is also looking to increase its output in order to allow the industry a better return on the investments made earlier in the period of investigation. The industry has been operating well below full capacity, and an increase in production will allow it to spread its fixed costs over a higher volume of throughput. Thus, an important element of cost reduction and improvement in industry profitability will be the more efficient use of the industry's existing resources.

The adjustment program outlined herein is reasonable and realistic if a strong remedy program is put into place. It is the firm belief of the domestic industry that at the end of the three year period of relief, the adjustments made will allow the industry to compete effectively in the global market for stainless steel flanges and fittings. Maintaining the industry's competitiveness is especially important, given that domestic producers of these products are a source of critical materials for national defense. The individual members of the domestic stainless steel butt-weld fittings industry lay out the specifics of their adjustment plans below.

1. <u>Shaw Alloy Piping Products</u>

Shaw Alloy Piping Products ("Shaw APP") produces stainless steel butt-weld pipe fittings at its facility in Baton Rouge, Louisiana. Shaw APP has made several major capital investments over the period of investigation ("POI") which demonstrate the company's commitment to continued domestic production of stainless steel butt-weld pipe fittings. In fact, [

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2. **Flowline**

Flowline produces stainless steel butt-weld fittings at locations in New Castle, Pennsylvania and Whiteville, North Carolina. If relief is granted, Flowline intends to [

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3. **Taylor Forge Stainless**

Taylor Forge produces stainless steel butt-weld fittings at its location in North Branch, New Jersey. If relief were granted, Taylor Forge had specified several adjustments that it would make in its operations that would allow it to compete more effectively with imports.

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4. **Gerlin**

Gerlin produces stainless steel butt-weld fittings and finished stainless steel flanges at its production facilities in Carol Stream, Illinois. From 1996 to 2000, Gerlin invested [

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5. Summary

Domestic producers of stainless fittings have developed, and stand ready to commit the funds necessary to implement, plans for significant investments in their plant and equipment to improve the efficiency of their operations. The degree to which the adjustment plans detailed above are ultimately implemented, however, depends a great deal on the implementation of a comprehensive import relief program. Such an import relief program will provide the domestic industry with the degree of confidence necessary to commit to these significant investments. The implementation of an effective section 201 relief program will provide a respite that will allow the domestic industry to gather itself, to make necessary investments and improvements to further strengthen its competitiveness, and to position itself to compete head-to-head with imports upon the expiration of that relief program.

In the next section of these comments, the domestic industry addresses further actions that it asks the Federal government to take to assist the stainless fittings industry's efforts to enhance its competitiveness and adjust to import competition.

C. Actions That May Be Taken by Federal Agencies or Departments to Assist the Domestic Industry's Efforts to Enhance its Competitiveness or Adjust to Import Competition

As outlined supra, the domestic industry producing stainless fittings has suffered serious injury due to large increases in imports over the ITC's period of investigation. The industry has not been able to operate at a reasonable profit level, and the result has been layoffs, unused capacity, and deferred investments. If some discipline is not imposed on the U.S. market for stainless fittings, the deterioration of the domestic industry will continue on its recent disastrous course. A strong remedy that will remain in place for a three-year period is required to stem the domestic industry's decline.

1. <u>The TPSC Should Recommend a Three-Year Quota and a One-Year Tariff Based on the Following Guidelines</u>

After careful consideration, the stainless fittings industry has concluded that the most effective means of addressing the serious injury being suffered by the domestic industry would be a three-year import quota, combined with an in-quota tariff of 15 percent for the first year of relief. The specifics of this remedy proposal are outlined below:

- The TPSC should recommend that a three-year quota program be imposed on imports of stainless flanges and fittings from all source countries. The years 1993-1995 should be used as the representative period for establishing import volumes.

- The import relief should be phased down gradually over the three-year period. The TPSC should recommend that the quota amount be expanded in the second year by three percent and by an additional three percent in the third year.

- Because the stainless flanges and fittings category is made up of distinct products made by different manufacturers, separate quotas should be established for each of the seven HTS numbers included within the stainless fittings and flanges category, based on the product-specific average of 1993-1995 import volumes. For stainless butt-weld fittings (HTS 7307.23.0000), the average total import volume for the 1993-1995 period was 3,574 short tons.

- In order to avoid the market-distorting effects associated with "front-end loading" of the annual quota volume, the TPSC should recommend that the annual quota be divided equally among the four quarters of year. In relation to the annual quota of 3,574 short tons for stainless butt-weld fittings, no more than 893.5 short tons of imports should be allowed to enter within any three-month period of the quota year.

- The TPSC should recommend that the quarterly quota volume be allocated among the top 15 import source countries on the basis of relative shares of total U.S. import volume in 2000. The percentage of total imports of stainless steel butt-weld fittings from these 15 countries in 2000 and their share of the quarterly import quota for stainless steel butt-weld fittings (in kilograms) are shown at Attachment 1.

- The TPSC should recommend that a tariff of 15 percent be applied to all imports within the quota in the first year of the remedy. As discussed in greater detail, <u>infra</u>, large inventories of imports already in the United States and a projected weak market for stainless fittings in 2002 mean that the quota program may take a period of time to be effective. The assessment of an in-quota tariff will provide immediate price relief to the domestic market and the stainless fittings industry.

- Finally, in order to discourage any surge in entries in advance of the imposition of the remedy in 2002, the TPSC should recommend that any substantial increases in import volumes in the quarter preceding the imposition of relief be held applicable to the quota for the first quarter of relief. For example, if total imports in the fourth quarter of 2001 exceed the average in the first three quarters of 2001, the amount in excess of the average should be subtracted from the first quarter of quotas when the remedy is put into place.

2. For the Three-Year Period, the TPSC Should Recommend a Quota Rather Than Other Forms of Import Relief

The proposed quota program will be the most effective means of allowing the domestic stainless fittings industry to recover from the serious injury it has suffered over the period of investigation. Adjustment assistance to either the producers of stainless fittings or their workers would not be a meaningful remedy to the industry. Further, as outlined below, the use a tariff by itself would have serious limitations that would likely render the remedy ineffective.

Both the stainless flange and stainless butt-weld fittings industries have filed successful antidumping cases over the last ten years. In the case of stainless butt-weld fittings, the industry has been forced to file three rounds of antidumping cases since 1987. As noted by Mr. Mavrich at the Commission's injury hearing, in each instance, after the industry has gained a victory, foreign producers have found some way around the remedy. Methods of avoidance have included moving production facilities to non-subject countries, manipulation of the antidumping calculus, duty absorption, and possible circumvention through the Canadian market. Further, the seemingly endless depreciation of foreign currencies in relation to the U.S. dollar has had the effect of diminishing or wiping out dumping margins assessed on imports of stainless butt-weld fittings.

As a result of these strategies, imports have consistently increased their penetration of the U.S. market, and have done so at large and growing margins of underselling. Pricing of imports of stainless fittings in the U.S. market often has no relationship to the actual costs of producing the product, and foreign producers and importers have demonstrated that they are willing to sell their product at almost any price in order to make their sale and increase their market share. Because stainless fittings are produced in a large number of countries, distributors are very willing to pit one source against another in order to leverage down price.

The domestic industry fears that if tariffs were imposed, importers and foreign producers would once again absorb them and they would not result in increased prices in the U.S. market. In addition, continued depreciation of foreign currencies over the period of relief would effectively erase a portion of the tariff imposed. This has proven the case in relation to the tariff rate quotas imposed on in the section 201 investigation on lamb meat, in which exchange rate developments allowed producers in Australia and New Zealand to lower their export prices significantly. Further, manipulation of transfer prices and entered values by importers and foreign producers is an obvious and simple means of overcoming any additional tariff that might be imposed. Simply put, the domestic industry has sufficient experience with foreign producers and importers of stainless fittings to believe that if a tariff were imposed as the sole remedy in the current action, it would be circumvented through one means or another.

In light of these market conditions, the use of a strict import quota would be more effective than a tariff. A quota would give the domestic industry a clear and predictable remedy. The quota would have the obvious effect of allowing domestic producers to increase their output and take back market share, and as a result, employment would rebound. As the domestic industry takes back a greater share of the market, realistic pricing will hold sway in a larger and larger element of the U.S. market. Further, when foreign producers realize that their exports to the United States will be limited to a strict and precise volume, they will no longer have any incentive to lower prices in an effort to buy market share. In addition, country-specific quotas will take away any incentive for foreign producers to bid each other down through price undercutting, as was the case over the period of investigation.

3. <u>The 1993-1995 Period is Most Representative of Imports of Stainless Steel Fittings</u>

Domestic producers have elected to base their quota proposal on the period 1993-1995. Under 19 U.S.C. § 2253(e)(4), any action imposing a quantitative restriction shall be based on the most recent three years that are representative of imports of such article, unless the President finds that the importation of a different quantity or value is clearly justified in order to prevent or remedy the serious injury.

Domestic producers believe that the 1993-1995 period is the most recent three-year period representative of imports of stainless fittings for several reasons. First, the record in this proceeding indicates that 2001 represents a turning point in the demand cycle within the period of investigation. Between interim 2000 and 2001, apparent domestic consumption of stainless fittings declined, while in the 1996-2000 period, apparent domestic consumption increased considerably. The current and ongoing contraction was also noted by witnesses at the ITC's injury hearing. From a demand perspective, the year 1992 appears to be similar to the year 2001 in that it represents a low point in the economic cycle. For this reason, the 1993-1995 period is representative of a post-recessionary period and would be an appropriate basis for quantitative restrictions for the period 2002-2004.

In addition, the record shows that the increase in imports over the period of investigation was rapid and unrelenting. From the beginning of the period, imports rose dramatically and domestic industry performance declined, despite increasing domestic demand for stainless fittings. To base the representative period on a period within the POI would, therefore, simply lock in import volumes that were already causing serious injury. Combined with the current, ongoing decline in market demand, the use of the years of the POI for establishing the quota would not "prevent or remedy the serious injury." 19 U.S.C. § 2253(e)(4).

In developing a recommendation to the President as to the representative period for a quota, the TPSC should draw on the experience in the recent section 201 cases on carbon steel wire rod and circular welded carbon quality line pipe. These case histories demonstrate that the representative period should predate the surge in imports that caused the serious injury and that declining demand should be taken into account when calculating the level of relief necessary to offset the serious injury. In the current case, the 1993-1995 period is appropriately representative because it predates the 1996-2000 surge in imports that caused the serious injury to the domestic industry and it takes into account the current downturn in the business cycle.

4. <u>The Period of Relief Should Be Three Years With a Gradual Reduction</u>

Under 19 U.S.C. § 2253(e)(1), the Commission may propose a remedy of up to four years. The domestic industry, however, believes that with an effective quota in place for a period of three years, the industry will be able to adjust to the import competition that has been the substantial cause of serious injury. Critical to the effectiveness of the quota, however, is that any phasing down of the import relief, as required by 19 U.S.C. § 2253(e)(5), be limited to an expansion of the quota level by three percent per year. A strong three-year quota will provide the industry with what it needs most in the short term, an opportunity to recover the market share that it lost in 1996-2000.

5. <u>The Quota Should Be Allocated by HTS Number and Source Country</u>

The product grouping of stainless steel flanges and fittings is very different from the other products currently under consideration in the section 201 investigation on steel. Generally speaking, the other product definitions in the investigation show significant commonality of production and market characteristics across the individual (10 digit) HTS numbers included within a product grouping. In the case of stainless flanges and fittings, however, the seven individual HTS numbers included in the product category by the Commission encompass nearly as many distinctive industries. While Gerlin produces both stainless steel butt-weld fittings and finished flanges, for example, Shaw APP, Flowline, and Taylor Forge only produce stainless butt-weld fittings. These producers are not unique, as by and large, producers of stainless butt-weld fittings do not produce the other products included in the stainless flanges and fittings category, such as pipe sleeves, pipe nipples, flanges, or threaded fittings. Nor is there much overlap among producers of these products.

For this reason, and in order to avoid a skewed filling of the overall quota for stainless flanges and fittings by a single product form, the TPSC should recommend that the quota be allocated among the seven HTS numbers within the stainless flanges and fittings category. Because the same producers do not produce all of the various products, it would be unfair and distortive if importers of butt-weld fittings, for example, rushed to fill the entire quota for the stainless flanges and fittings category overall, and no imports would then be allowed under any of the six other HTS numbers during that period. Not only would such an outcome be unfair to the producers of the various forms of stainless fittings and flanges, but it could also have a distortive impact on the marketplace, as one product could end up in relative abundance while another was in relatively short supply.

The quota for stainless flanges and fittings should also be allocated on a country of origin-specific basis as well. Stainless flanges and fittings are made in many different countries, so it would be inherently unfair to allow single source countries to fill the quota in any given period. If the quota is left to be filled by whatever producer in whatever country first enters the product, the result will be distortion in the marketplace. This is particularly true with stainless steel butt-weld fittings, where not all countries produce the entire product spectrum. For example, imports from Canada are relatively more weighted toward large-diameter stainless butt-weld fittings, while imports from Thailand are understood to be available exclusively in small diameters. Again, to allow a single country to fill the entire quota could lead to a differential impact on one type of stainless butt-weld fitting at the expense of another, thereby causing distortions in the market. For this reason, the TPSC should recommend that a specific quota be assigned to each of the 15 largest source countries for imports in 2000, with the remainder of the quota open to source countries that were not among the top 15 sources. See Attachment 1.

6. In Addition to the Three-Year Quota Program, the TPSC Should Recommend a One-Year In-Quota Tariff Because of the Significant Inventory Overhang in the U.S. Market

Although the domestic producers propose a quota as the primary relief to remedy the effects of increasing imports, a substantial overhang in importer inventories in the U.S. market could delay the effectiveness of such a program. Importer inventories of stainless fittings more than doubled from 1996 to 2000, and in interim 2001, reported inventories represented 48.9 percent of shipments. In addition, as discussed supra, recent market and economic conditions indicate that 2002 is likely to be a relatively weak year for demand for stainless fittings. While the domestic producers believe that a quota will be the most effective remedy over the three-year period of relief as a whole, in the short term, it may not provide immediate, effective relief in the face of these conditions.

For seriously injured industries, such as that producing stainless fittings, the first year will be the most important in moving the industry back toward health. For this reason, the TPSC should consider special relief in the first year of the remedy package to ensure that positive adjustment in the marketplace begins immediately.

To this end, the TPSC should recommend that a combination of remedies be implemented in the first year of relief in order to ensure an immediate benefit to the domestic industry. Such combinations of remedy are authorized in 19 U.S.C. § 2252(e)(2)(E). In addition to the three-year quota, the Commission should recommend an additional tariff of 15 percent on all imports during the first year of relief. This will allow immediate price and revenue effects, despite large importer inventories and stagnant demand, thereby jump-starting relief, while the quota will ensure longer-term stabilization to the market and improvements for the domestic industry.

7. <u>The TPSC Should Propose That the Quota Program Include a Surge Mechanism</u>

To preserve the integrity of any remedy, the TPSC should recommend a surge mechanism wherein the quota for the first quarter of the relief period would be adjusted downward for any surge in imports occurring during the quarter preceding the imposition of relief. Such a surge would be defined as entries in excess of the average of the previous three quarters. Thus, for example, if the first quarter of 2002 is the first quarter of the quota year, an adjustment downward would be made to the quota level if imports during the fourth quarter of 2001 exceeded the average of the first three quarters of 2001.

D. How Import Relief Will Assist in Achieving Objectives

1. The Proposed Relief is Needed to Remedy the Industry's Injury

From 1996 to 2000, the domestic stainless fittings industry lost significant market share. The proposed remedy would cut import volumes substantially, and because imported and domestic stainless fittings are highly substitutable, the domestic industry's shipments will increase commensurately. This would provide the obvious benefit of increased sales revenues via the sale of more units of product. Increasing shipments would also allow the domestic industry to allocate fixed costs, including factory overhead and selling, general, and administrative expenses, over a larger number or units, thereby reducing unit costs of production.

Increased shipments would also mandate expanded production of stainless fittings. The domestic industry has suffered miserable levels of capacity utilization and has been forced to lay off large numbers of production workers during the period of investigation. Imposition of a meaningful import quota will allow the domestic industry to increase production of stainless fittings, thereby allowing the rehiring of a number of laid off workers and increased capacity utilization.

The econometric model employed by the ITC staff, known as the "COMPAS" model, provides support for the proposition that the proposed remedy will provide relief to the domestic stainless fittings industry. According to the model, the proposed quota program would have the effect of increasing U.S. producers' shipments by 50.3 percent and prices by 14.6 percent. As a result, U.S. producers' revenue would increase by 72.2 percent, which would restore the domestic industry's sales to approximately 1996 levels. Consequently, U.S. producers' profitability would improve dramatically in relation to recent dismal operating returns.

The COMPAS model also indicates that U.S. importers' prices would increase by 34.3 percent as a result of the quota program. The Commission's pricing analysis shows that imports undersold U.S. product in every possible comparison during the period of investigation by margins from 23.7 to 51.8 percent. Accordingly, the COMPAS model shows that U.S. importers' prices would increase to levels more in line with U.S. producers' prices as a result of the quota program.

2. The Proposed Relief Will Increase Capital Spending to Levels Required to Strengthen the Competitiveness of the Domestic Industry

Robert M. Feinberg, Professor of Economics at American University, conducted a study concerning the relationship between import pressure and capital spending in the domestic stainless flanges and fittings industry. Based on questionnaire data of producers of stainless flanges and fittings over the five full years of the period of investigation, Dr. Feinberg found a large and statistically significant impact of import prices on investment. After controlling for economic growth, a one-percent increase in import price less scrap costs was found to lead to more than an eleven percent increase in capital spending for the industry.

This robust finding clearly documents the adverse impact of increased import competition on investment in the stainless steel flanges and fittings industry, and the beneficial impact of an effective remedy. Because it will take at least one year before the industry sees any improvement of cash flow from the proposed remedy, three years of import relief is critical to the full implementation of the domestic industry's capital spending and adjustment plans.

3. The Proposed Relief Will Enable the Domestic Industry to Implement Its Adjustment Plan

The adjustment plans of the domestic producers of stainless steel butt-weld fittings are discussed supra. As the adjustment plans make clear, a return to profitability and an increase in cash flow are critical first steps if any of the needed capital investments are to be made. Capital investment in the domestic industry was cut severely over the course of the period of investigation, as increased import penetration resulted in reduced profits for the domestic industry. This history that must be reversed quickly if the industry is to maintain its production efficiency and competitiveness. As demonstrated in Dr. Feinberg's analysis, the proposed remedy will be effective in turning around these declines in capital investment.

As noted in the adjustment plans, the industry has many major capital investments that it considers crucial to its ongoing strategy to reduce costs and improve efficiency. Beyond the need for an immediate improvement in profitability and cash flow, the industry also needs some assurance that the import relief that is imposed will be effective and predictable for the full three-year period. Assuming that the industry returns to profitability in 2002, the imposition of a three-year quota would provide the domestic industry with the reassurance that such market conditions would continue for an additional two years, thereby providing a reasonable comfort level in the decision-making process for capital investment.

E. The Proposed Relief Would Have A Positive Economic Impact

As indicated above, the proposed remedy would have a beneficial impact on the domestic industry by allowing it to increase its market share, return to reasonable profitability, and become more competitive. The proposed remedy would also have a positive impact on the communities in which stainless flange and fittings facilities are located, as many of the production workers that have been laid off over the period of investigation would be re-hired. Many of these production facilities are located in relatively small towns in various regions of the United States, so that such employment would have a significant economic impact on the well-being of those communities.

Finally, the proposed remedy will lead to net benefits to consumers and the entire economy over the long term. During the three-year period of import relief, the U.S. producers will have opportunities to lower production costs and enhance their product line. These costs savings will give U.S. producers the ability to compete more effectively with importers while offering lower prices to consumers. At the conclusion of the relief period, the price differentials between domestic and imported stainless fittings should be narrowed. The consumer will ultimately benefit most from a strong U.S. industry that can compete effectively.

IV. Conclusion

For the reasons stated above, the domestic stainless fittings industry requests that the TPSC recommend to the President a relief program consisting of a three-year quota program, supplemented by a 15 percent tariff on the subject imports during the first year of relief.

Respectfully submitted,

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Representatives of Flowline Division of Markovitz Enterprises, Inc., Gerlin, Inc., Shaw Alloy Piping Products, Inc., and Taylor Forge Stainless, Inc.

November 5, 2001

ATTACHMENT 1

Stainless Steel Butt-Weld Fittings: 2000 Country-Specific Import Shares and Quarterly Quota Volume, HTS 7307.23.0000

	2000 US Import Volume (1000kg)	Percent of Total	Quarterly Quota Volume (kg.)
Canada	912	14.9%	120,399
Italy	890	14.5%	117,494
Malaysia	689	11.2%	90,959
Taiwan	625	10.2%	82,510
Philippines	491	8.0%	64,820
Austria	468	7.6%	61,783
Thailand	362	5.9%	47,790
Germany	353	5.7%	46,602
Korea	315	5.1%	41,585
Mexico	215	3.5%	28,383
Japan	193	3.1%	25,479
China	161	2.6%	21,255
India	140	2.3%	18,482
Sweden	131	2.1%	17,294
UK	51	0.8%	6,733
All others	144	2.3%	19,010
Total	6,140		810,578

810,578 kgs. = 893.5 short tons

Source: U.S. ITC Trade Dataweb.